DOCUMENT RESUME

ED 313 506 CE 053 578

AUTHOR McLean, Gary N.
TITLE Case Studies for Management Development in Bangladesh. Third Book. Prepared for the World Bank/Bangladesh Management Education and Training Project.
SPONS AGENCY World Bank, Washington, D. C.
PUB DATE Apr 88
NOTE 50p.; For related documents, see ED 277 892-895 and CE 053 579.
PUB TYPE Guides - Classroom Use - Materials (For Learner) (051) -- Collected Works - General (020)

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS Administrator Education; *Banking; *Business Administration Education; Business Skills; Case Studies; *Compensation (Remuneration); Developing Nations; *Entrepreneurship; Foreign Countries; Labor Force Development; Leadership Training; *Management Development; *Marketing
IDENTIFIERS *Bangladesh

ABSTRACT

This document contains 10 case studies of management situations in Bangladesh, which are intended to foster classroom discussion and thereby advance management development in that country. Two to four discussion questions follow each case study. Three case studies on the subject of pay and compensation were prepared by Abu Hossain Siddique; the titles of these studies are: "The Model Engineering Works"; "Ahmed Retail Store"; and "Dhaka University Club." The single case study on the subject of marketing is titled "Aziz Match Factory" (A. K. M. Mostafizur Rahman, SK. Matiur Rahman). The three case studies on bank loans and recovery are: "Krishi Loan Disbursement--Rajshahi XYZ Bank P. Br." (Syed Zabid Hossain, Zakir Hossain); "Adcco (Bangladesh) Limited" (M. Nuzrul Islam, M. Martiar Rahman); and "Quality Textiles" (M. Muzahidul Islam, Afrauz Zaman Khan Choudhury). On the subject of entrepreneurship is the case study called "Karim-Hannan Garments, Ltd." (A. F. M. Ashraf Ali). The case study on government policy is "Automobile Assembly/Manufacturing Enterprises in the Private Sector" (Amal B. Nag, Kanchan Kumar Purohit). Concluding the publication is an integrated case study called "General Electric Manufacturing Co., Ltd." (Abdul Mannan, Milan Kumar Bhattacharjee). (CML)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

Table of Contents

Introduction..... 3

Pay and Compensation

The Model Engineering Works, Abu Hossain Siddique..... 5
Ahmed Retail Store, Abu Hossain Siddique..... 7
Dhaka University Club, Abu Hossain Siddique..... 8

Marketing

Aziz Match Factory, A.K.M. Mostafizur Rahman and SK. Matiur Rahman..... 9

Bank Loans and Recovery

Krishi Loan Disbursement--Rajshahi XYZ Bank, P. Br., Syed Zabid Hossain and Zakir Hossain..... 14
Adcco (Bangladesh) Limited, M. Nuzrul Islam and M. Martiar Rahman. 19
Quality Textiles, M. Muzahidul Islam and Afrauz Zaman Khan Choudhury..... 33

Entrepreneurship

Karim-Hannan Garments Ltd., A.F.M. Ashraf Ali..... 37

Government Policy

Automobile Assembly/Manufacturing Enterprises in the Private Sector, Amal B. Nag and Kanchan Kumar Purohit..... 42

Integrated Case

General Electric Manufacturing Co. Ltd., Abdul Mannan and Milan Kumar Bhattacharjee..... 45

INTRODUCTION

The case studies contained in this publication were developed under the direction of the author while in Bangladesh during January through March, 1988, on a Case Writing assignment with the World Bank/Bangladesh Management Education and Training Project. This is the third publication of this nature developed by the author for this project. (See: Gary N. McLean, Case studies for management development in Bangladesh, World Bank/Bangladesh Management Education and Training Project, 1985; and Gary N. McLean, Case studies for management development in Bangladesh, second book, World Bank/Bangladesh Management Education and Training Project, 1986.)

As in the earlier publications, the author worked with the Faculties of Commerce at the Universities of Chittagong, Dhaka, and Rajshahi, as well as the Bangladesh Management Development Center and the Institute of Business Administration, to assist them in developing case studies, primarily to support Executive Development Programs (an ongoing secondary objective for the author in working with the faculty members included development of Executive Development Programs). Increasingly, however, the faculty began to recognize the value of using case studies in their B. Comm., M. Comm., and MBA programs.

Without exception, executives were very willing to work with faculty in the process of developing case studies. Likewise, faculty who had not developed a case study before found that a brief case study to be used for instructional purposes can be developed very quickly. I was impressed with how quickly and how well these cases were developed.

My role in the development of the cases was to review the case study proposals, including questions to be asked during the interviews; to assist in the gathering of information from the interviews and secondary data; to review, edit and rewrite drafts of the studies; and to revise the case studies based on the experience of using each of the cases in an Executive Development seminar. Lack of time, however, precluded the use of all of these cases within the context of the project.

Readers may wish to make reference to the 1985 publication for sections on "How to Write a Case Study" (p. 20); "How to Teach Using Case Studies" (pp. 21-24); and "How to Solve Case Studies--Student Notes" (pp. 25-26).

For those outside of Bangladesh who may wish to use this publication, some explanation regarding the currency terminology may be in order:

100 Paisa = Taka 1.

At the time of writing,

32.85 Taka = $1 (U.S.) or
Taka 1 = approximately 3 cents (U.S.)

Counting units may also be confusing:

One lakh (or lac) = 100,000
One crore = 10,000,000

It should also be noted that commas are used to set off large numbers in groups of two, after the thousands units, e.g., 34,56,980, which would be written in the west as 3,456,980.

Other words that might require explanation include:

hartel - a demand by a political party that everyone stay off the street, usually from dawn to dusk

gharoe - picketing carried to the extreme of encircling an office and not letting the inhabitants out, often under the threat of death or injury; often used in labour union and management conflicts

Most of the users of these cases continue not to have had previous experience in using the case study method. Questions for discussion have thus been appended to each case. When used with experienced persons, or if used for some other objective, these questions should probably not be reproduced.

As with all case studies, the case studies included in this publication are not intended to present illustrations of either correct or incorrect handling of business problems. Their intent is to provide classroom or workshop discussion only.

I wish to express my appreciation to those executives who gave so generously of their time and knowledge for the sake of advancing management development in their country; and to the faculty for their partnership in developing the cases. My hope is that these cases might continue to be useful in supporting management development wherever it is taking place in Bangladesh.

The Model Engineering Works

Abu Hossain Siddique
Associate Professor of Management
Dhaka University

A young man named Mr. Karim was employed in an engineering workshop at Serajganj, primarily preparing window frames and grills. The man had about ten years' general education, as well as proficiency in engineering. The employee also had a very strong interest in theatre. His interest was so strong that he frequently left his job before the scheduled time, or he remained absent from work to take part in theatrical performances.

His main source of income was his work in the engineering workshop. The employee, however, had little interest in his job. He was not at all interested in learning the skills needed for other engineering tasks performed in the workshop.

In the workshop were five other employees, two doing other engineering works and the remaining three working in support positions.

Mr. Karim often failed to report to his job without serving previous notice to the owner of the workshop that he would be absent. His production rate was quite slow. Very often, it became impossible for the workshop to supply product to meet customer orders because of this employee's absence or slow work. This situation threatened the workshop's positive reputation in town.

The employer tried to modify Mr. Karim's behaviour by persuasion and requests to exert more efforts. But the attempt failed to produce any positive results. Then the owner proceeded to take formal actions. Warnings and reprimands were given. He was also suspended from work for a week, and salary was not given as punishment. This improved the situation slightly for about a month. But again it was found that the employee resorted to similar practice. The production again went down, and he again became apathetic toward his job in the workshop.

To confront this situation, the employer devised a new incentive bonus plan according to which the employee was offered a bonus of fifteen percent of his wages if he could meet a standard nearer to full production fixed by careful estimate. But this bonus plan also failed to bring about the desired change in the behaviour pattern of the employee. At last, the employer determined a piece rate for Mr. Karim which was comparatively lower than current per unit cost of output and offered that rate to him. The other employees were, however, paid according to the previously followed time basis. There was an immediate effect on the behaviour of Mr. Karim. His rate of production increased by about thirty percent, and this increase in production rate has continued for almost a year.

Questions for Discussion:

1. Analyse the probable reasons for the situation stated above.
2. What problems might the employer face in the future?
3. How can the employer prevent these problems?

Ahmed Retail Store

Abu Hossain Siddique
Associate Professor of Management
Dhaka University

"Here ia a reward for your performance," said Mr. Ahmed, enthusiastically handing over an envelope containing Taka ten thousand to each of his six employees. The employees received the envelope saying, "Thank you." The atmosphere was very calm, contrary to Mr. Ahmed's expectations. Mr. Ahmed was shocked, because he was fulfilling a long cherished dream of doing something very special for his employees. He said to himself, "I am doing so much for them, but they are not happy. There must be something wrong here."

Mr. Ahmed, an honest and hard-working businessman, started his retail business a decade ago in a district town of about one lac population. He started his business with relatively little capital and six devoted employees whom he had known previously. The employees were very honest, energetic and hard working. Throughout this ten year period Mr. Ahmed and his employees worked very hard for the business. Now, the business had turned into a large retail store with considerable repute in the locality.

Mr. Ahmed is a kind man and always has best wishes for his employees. He also believes that his success in business is largely the result of the honest efforts of his employees. As a result, for a long while he had wanted to do something good for the employees. He thought that he would distribute a portion of the annual profits among the employees. But, as he was always in need of money to extend his business further, he did not make the idea public. He wanted to surprise the employees by giving each of them a considerable amount as a profit bonus, even though the employees are paid a monthly salary which is comparatively higher than the prevailing salary rate in the area.

Since the business had recently reached optimum size, and there was a considerable amount of profit in cash from the last financial year, Mr. Ahmed gave each of his six employees taka ten thousand which was more than 3 months' salary as a profit bonus on the occasion of Eid, the most important religious festival of the Muslims. He hoped that the employees would be so glad that it would motivate them to work harder. However, the opposite happened. The employees took the reward very calmly, and there was no enthusiasm among them.

Questions for Discussion:

1. Analyse the reason for such behaviour on the part of the employees.

2. Advise Mr. Ahmed on what he might do to change the situation.

Dhaka University Club

Abu Hossain Siddique
Associate Professor of Management
Dhaka University

The Dhaka University Club provides catering and other recreational services to its members, both in the club building in the evening and in the Arts and Science Annex buildings during office hours. The Club has seven service employees who render services to the members in three shifts. All employees come from the south-eastern part of the country and have been serving the Club for more than five years. In view of their language and cultural similarities and association over a long period of time, they have formed a closely knit social group.

Because of increased membership and expanded service activities recently, the present administration recruited three additional service employees. In order to provide employment opportunities to all areas of the country, and because of the demand of a portion of the members, these new employees were recruited from the northern part of the country. Very soon the newcomers found that the old employees took the most convenient times for their duty--when there was a smaller crowd. The new employees were given duties during the most inconvenient times when service demands were high, thereby keeping them busy all the time. The old employees also received preferential treatment from the supervisor, a member of the original group, in all respects, e.g., distribution of duties, leave, overtime allowances, etc.

In addition, the old employees often instructed newcomers to wash dishes and cookeries and to clean the kitchen and other places although these were the common responsibility of all employees. The result was that the new employees had less time to rest and their hours of work were longer compared with the old employees. Since all employees were appointed under similar terms and conditions and were under the same salary scales, the new employees complained to the President and Secretary of the Club about this practice.

Questions for Discussion:

1. Analyse the current employee situation.

2. As Secretary, the Chief Executive of the Club, what, if anything, would you do about these practices?

Aziz Match Factory

A.K.M. Mostafizur and SK. Matiur Rahman
Lecturers, Department of Marketing
Rajshahi University

History of the Firm:

The Aziz Match Factory was first established in 1935-36 by Mohonee Mohan Roy (son-in-law of a Hindu Zaminder). But due to unfavourable circumstances the factory did not run well. In 1953 the factory was sold to Mr. Abdul Aziz. He also failed to run the factory properly and sold it to M/S Rouf and Co. in 1965, and the factory was operated by them until 1971. The owner (Rouf & Co.) was Pakistani. So, after liberation it was left as an abandoned property. The factory was then operated by a 'Local Management Board' from 1972 to 1974. After 1974 the factory was handed over to the Bangladesh Chemical Industries Corporation (BCIC).

Under the Governmental disinvestment policy, the factory was sold to M/S. 'Uttara Management Ltd.' in July, 1978. Since then, the factory has been running well and has been profitable every year. The mill is located at Sopura in the BSCIC industrial area of Rajshahi. At present the factory has 500 employees, including 21 officers, 49 staff and the rest are labourers. The General Manager is working here on deputation from BCIC.

Raw materials procurement:

The factory is a soft-wood based match factory. Raw materials include Simul (Silk Cotton tree), Satim (Seven-leaf tree), Kadam wood, papers and some chemicals. The soft wood is collected from small traders from different villages. The soft wood raw material is usually collected from a distance of 70 to 80 miles from the factory. The soft wood procurement process is a very difficult process because there is no planned plantation of this type of wood in the country, though the company is considering developing one of their own within the next two years. Sufficient land is owned nearby for a plantation. Severe shortages of soft wood are anticipated in the near future. The raw material is usually purchased in cash.

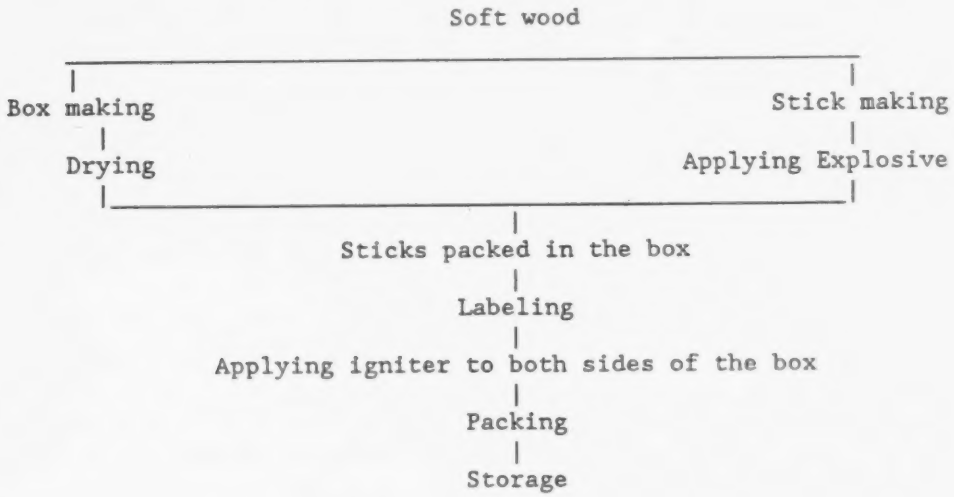
Sometimes factory officials visit different wood procurement centers to procure raw materials. This sometimes means purchasing one tree at a time from villagers. The raw materials and other inputs contribute to the cost of production as follows:

Wood, 20% of the total cost of production
Chemicals, 20%
Papers, 20%
Wages, 40%

Chemical raw materials are usually imported from U.K., China, Japan, and West Germany. Heavy machineries have also been imported from foreign countries.

Production systems:

After collecting soft wood from different parts of the country, it is processed through different machineries, as shown in the production flow process chart below.



The last ten years' production figures are shown in Table 1.

Table 1
Aziz Match Factory

Statement Showing Yearly Production for the Years 1977-78 to 1986-87

Year	Production (in gross)
1977-78	1,15,855
1978-79	3,61,050
1979-80	4,27,550
1980-81	4,85,650
1981-82	4,06,750
1982-83	5,65,280
1983-84	4,41,225
1984-85	4,69,010
1985-86	5,60,000
1986-87	7,11,700

The installed production capacity of the factory is 10 lachs gross per annum. But the factory usually fixes its production target at 7 lachs gross per annum. The highest production of the factory was in the year 1986-87 at 7,11,700 gross.

Marketing:

Most of the product was sold to West Pakistan prior to liberation. After liberation this market was completely closed, and there is no opportunity for export now due to lack of proper quality. That is why the installed production capacity is not utilised.

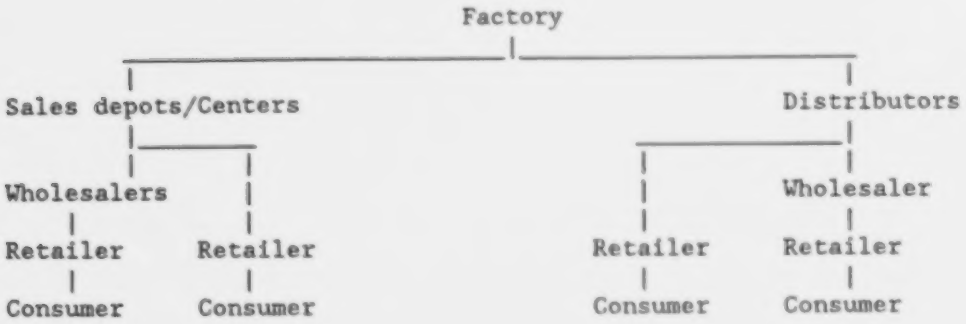
a) Product: The product line of the factory is concentrated on only one product, i.e., matches. But different brand names are used on the same matches to attract consumers. The brand names are: Padma, Champion, Five Horses, Bornali, etc. The company has conducted no market survey to determine consumer demand or preferences, nor does it forecast sales. It simply modifies production based an current sales.

In recent years some photographs of beautiful women have been printed on the back of the match cartons as a competitive strategy to stimulate consumers. As of the beginning of 1988, 70% of sales are of matches with the women's pictures on them. (See sample covers in appendix 1.)

b) Pricing Policy: While the company prefers to use a cost plus pricing policy, the competition in the market place and the demand situation often require them to set prices in conjunction with the market prices. The factory sold its products in 1986-87 at Tk. 58 per gross, whereas in 1987-88 the same product sold at Tk. 50 (for other covers) to 52 (for women covers) because the competitive products had decreased their prices. There is also growing competition for lighters, and some from paper matches, illegally imported.

c) Distribution: The marketing territory of the factory is all over the country but is concentrated in Chapai Nawabganj, Rajshahi, Syedpur and Mymensingh. Products are distributed to the consumer through two types of indirect channels: (1) Sales depots/centers and (ii) distributors. The sales depots are situated at Chapai Nawabganj, Isurdi, and Syedpur, and the distributors are at Rajshahi, Natore and Mymensingh. The following shows shows the channels of distribution.

Aziz Match Factory Distribution Channels



Aziz Match Factory shares the market with 18 other match factories in the country. The factory's total market share at Chapai Nawabgani is 95%, whereas at Rajshahi it is 45%, because the Rajshahi market demands a higher quality match. The sales depots usually provide short-term credit for 5 to 15 days for Tk. 5 to 6,000 to the retailers, and there is no record of bad debt. Distributors earn more commission for Aziz than they do through selling competitors' matches.

Finished products are supplied to the depots and to the distributors with the help of the factory's own transport. This transport is also used to procure raw material, so the transport seldom remains idle. Sometimes transports are hired from outside for procuring raw materials.

The factory has almost no promotional activity, but when sales decrease markedly, they cut their selling prices and provide some publicity in the village "Hat" with the help of a delivery van and mike.

Questions for discussion:

1. What steps can the factory take to improve the availability of raw materials?

2. What should be the marketing strategy of the factory?

3. What steps can be taken by the owner to improve the situation of the factory?

Appendix 1
Aziz Match Factory
Sample Match Book Covers

Krishi Loan Disbursement--Rajshahi XYZ Bank, P.Br.

Syed Zabid Hossain
Lecturer, Department of Accounting, and
Zakir Hossain
Lecturer, Department of Finance and Banking
Rajshahi University, Rajshahi

XYZ Bank was established on March 15, 1987. Formerly, it was part of the Bangladesh MN Bank. It was separated from its parent organisation with the objective of extending credit facilities to the poor farmers in the northern part of the country and to give more attention to agricultural development in this division. It currently has 267 branches in operation. Most of them are located in rural areas to help the rural people increase their production and to establish a close relationship with the farmers and entrepreneurs of agriculture-based industries.

P. Branch of XYZ Bank is situated at P. Thana, Dist. Rajshahi. This branch was established in December, 1983, as a branch of Bangladesh MN Bank, but after the establishment of XYZ Bank, it was transferred to the supervision and control of the new bank. At present there are 3 officers and 13 staff working in this branch. The branch manager has no agricultural background. The operational area of this branch consists of only one union, Kazla, where the number of villages is 32, having a total population of 332,195, of which 3,873 are Agri-farmers. The number of loans on 16.01.88 was 1,553. The bank collects its funds from deposit mobilisation and from the Head Office. They collect deposits through current deposit A/C, savings deposit A/C, fixed deposit A/C, and deposit pension schemes. At present the number of savings accounts is 972.

The branch mainly provides short-term agricultural loans for intensive use of land which means repeated use of variable inputs (seeds, fertilizer, water, insecticides, labour, etc.) with the fixed input (land). Term loans are given for agricultural purposes and off-farming activities, such as purchasing cattle for producing milk; growing nurserys; construction of crop godowns, saw mills, rice mills, oil mills, etc. Term loans are called project loans.

In the case of project loans, a group of persons through cooperatives must submit a loan proposal. After receiving the proposal, the Branch Manager verifies the feasibility of the project, collects confidential opinions of the borrower from local banks and respectable persons, obtains the lawyer's opinion, observes other formalities, and forwards the loan proposal to the Head Office enclosing other necessary papers with the Branch Manager's specific comment. The Head Office sanctions the loan and advises the branch. The whole process takes 3 to 4 months.

Financial assistance through short-term loans per case is Tk. 3,000 to Tk. 4,000 (average). Applications received by the branch per month for short-term loans is about 100. On receipt of the

application, the Branch Manager scrutinizes it and sends the field officer to survey the genuineness of the purpose and viability of the loan. The field officer submits a report to the Branch Manager. If the party is considered good for the loan and the limit is within the manager's delegated power, the manager sanctions the limit and sends a sanction letter to the borrower with all terms and conditions. The whole process takes 2 to 3 weeks. Follow-up is done three or four times per month. The short-term loans are disbursed on an individual basis.

Short-term loans are disbursed in kind (i.e., the product), not in cash, except in the case of labour charges. For disbursement in kind, the Bank issues Baki Bikrayer vouchers on presentation of which the farmer will obtain seeds, fertilizer, pesticides, etc., from the bank-approved dealer. The dealer has to obtain acknowledgement of the farmer on the voucher. Some of the poor and dishonest farmers have sold the voucher to the dealer at a commission and used the money for other purposes.

Six borrowers were interviewed in the presence of the branch officials and higher officer from the head office. They were selected for interview by the bank authorities. According to their statements, they faced no problems in getting the loans. All of them fully utilised the amount of the loan. But in the case of repaying the loan, one of the farmers who obtained Tk. 30,000 for the purchase of 6 (six) cows for producing milk and Tk. 15,000 for a cowshed is irregular in paying instalments. He took out the loan 1 1/2 years ago and still has not repaid one instalment. A summary of the situation for all six borrowers is attached in appendix 1.

Commenting on the interviews of the six borrowers above, the branch manager informed us that the loan money was fully utilised by the borrowers and the recovery position is about 90%.

The same branch manager gave us another interview on the following day without the presence of the representative from the Head Office. We found his comments to be totally different as is evident from the following facts.

Table 1
Second Day's Findings as to Loan Recovery

Total Disbursements(in lac)			Recovery(in lac)	
Year	Target	Disbursement	Year	Percentage
1983-84	57	31	1983-84	87
1984-85	125	125	1984-85	54
1985-86	196	4.12	1985-86	48
1986-87	13	2.62	1986-87	38
Up to Dec'87	13	0.92	Up to Dec'87	5

The branch manager made the following comments (on the second day):

(A) Disbursement of loans:

(1) One of the most important explanations for the lower rate of disbursement is that the concerned branch managers are not interested in releasing funds to prospective borrowers. Such negative attitudes have been promoted due to a recent circular of the Head Office. According to the circular, the branch manager is bound to recover the loans he has disbursed. In case the branch fails to recover the loan, then the disbursing manager will be demoted to the post of recovery officer of the said branch. Under such circumstances the branch manager is usually reluctant to disburse loans.

(2) Usually the rate of loans is higher due to political pressure but in recent months because of the government's emergency declaration limiting political activity, there has been no political pressure, and hence disbursement rates have decreased.

(3) The number of applicants for project loans is very few, and most of these applicants are found unfit to get new loans as they are already on the defaulters' list.

(B) Recovery of loans:

(1) The recent devastating flood is the main cause of poor recovery of loans.

(2) Recently the government has ordered the bank through a circular not to pressure the borrower for repayment of loans and not to charge penal interest.

(3) There is a feeling among the borrowers that the government will one day forgive their total loan as in the last year the government exempted the loans taken by borrowers during the Pakistan period.

(4) If the bank sues a defaulter, the said defaulter will lose the urge to repay any amount to the bank. The bank cannot recover the money through suit because of the very lengthy process involved in the settlement of any case in the court, and the court costs may exceed the amount that can be recovered.

The suggestions for improvement of the whole situation are:

(1) The circular of the Head Office regarding demotion of the branch manager who fails to recover loans should be withdrawn.

(2) Loans should be disbursed not in cash but in kind.

(3) A supervision system of credit should be effectively introduced.

(4) Block disbursements of short-term loans, instead of the present system of individual disbursements should be emphasized.

Questions for discussion:

1. Do you think the branch manager's suggestions regarding disbursement and recovery of loans are justified?

2. Should the defaulters be allowed to get additional/further loans to increase their repayment capacity? ity?

Appendix 1

Statement Showing the Particulars Obtained from the Six Loanees

Name of the Borrower	Types of Loan	Amount of Loan	Principal Amount Paid	Present Outstanding
A	Project Loan for deep tubewell	Tk. 54,000 in 1986	Tk. 41,000	Tk. 13,000
Remarks: The project includes 46 farmers. The deep tubewell is used for IRRI and BORO cultivation. Per acre production 40 mds. and cost per acre is Tk. 2500 to TK. 3000; profit margin is about 50%.				
B	Project Loan for nursery	Tk. 40,000	Tk. 40,000	Nil
Remarks: Current year estimated expenditure is Tk. 3,15,205; estimated income is Tk. 3,57,700 and estimated profit is Tk. 38.000. He appointed one supervisor and 9 day labourers. We inspected his nursery which is an excellent project.				
	Shallow tubewell	Tk. 34,000	Tk. 15,000	Tk. 19,000
	Working capital	Tk. 50,000	Instalment not yet due	
C	Cattle loan (one cow)	Tk. 3,000	Tk. 3,000	Nil
Remarks: The borrower has already paid his loan. He gets 2 to 2 1/2 kg. milk per day. He has also a small size poultry firm. He has 5 acres of land.				
D	-ditto-	Tk. 30,000 for purchasing 6 (six) cows and Tk. 15,000 for a cowshed.	Tk. 45,000	Nil
Remarks: The borrower is getting 4 to 5 kg. milk per day which is sold in the local market @ Tk. 8.00 per kg. He has a big family of				

Statement Showing the Particulars Obtained from the Six Loanees
(Continued)

Name of the Borrower	Types of Loan	Amount of Loan	Principal Amount Paid	Present Outstanding
8. He has 7 acres of land.				
E	Shallow Tubewell 6 1/4 h.p.	Tk. 27,125 in 1982	Tk. 2,00	Tk. 25,125
Remarks: Due to Farrakka barage the water level declined in the boro season. As such the shallow tubewell is used only for potato and wheat production. Due to the recent flood, he could not pay his dues.				
F	Cattle loan for purchasing two buffalo.	Tk. 7,000 in 1984	Tk. 5,000	Tk. 2,000
Remarks: Took this loan four years ago to purchase two buffalo for cultivation of potato, Aus and Amon. He has a large family of 8. He has 5 acres of land.				

Adcco (Bangladesh) Limited

M. Nuzrul Islam and M. Martiar Rahman
Rajshahi University

After independence in 1947, there were no pharmaceutical industries in North Bengal. Mr. Quamaruzzaman, a prominent lawyer with a political background, wanted to establish a pharmaceutical company at Rajshahi. For this purpose he visited ADCCO (a pharmaceutical company) at Calcutta in India in 1952. He was then advised not to establish a pharmaceutical company at Rajshahi but to set up a distributing firm for ADCCO (I) products.

Accordingly, Mr. Q. Zaman set up a distributing firm at Rajshahi to distribute Adcco (I) products throughout North Bengal which worked successfully up to 1965. In 1957, Mr. Quamaruzzaman purchased the goodwill of Adcco (I), and Adcco (Pakistan) Limited was established with an authorised capital of 99,760 ordinary 'A' class shares at Tk. 100 each and 4,800 ordinary 'B' class shares of Tk. 5 each in the heart of the town at Boalia, Rajshahi. Mr. Q. Zaman became the first managing director of Adcco (Pakistan) Limited and held office from 1957 to 1967. The enterprise started production in 1957 and produced six varieties of medicine, viz., Adco's Compound, Lekora, Vinolecithin, Alhydrox, Hepargen and Vibiplex, up to 1969 and had a very good market in then East Pakistan.

In 1967 Mr. Q. Zaman involved himself in politics full time, so he did not have time to look after the management of the enterprise. For this reason he handed over the position of Managing Director to Mr. M.A.Salam, one of the promoters of the enterprise. At that time Mr. Badiuzzaman, another promoter of the company, was appointed as General Manager.

In 1970 the management of the company decided to manufacture four new varieties of medicine, viz., AdcozyMe, Alkatwin, Vibilex (S.A.F.) and Iro-vita, in addition to the six varieties of medicine previously manufactured.

Due to the company's location in the heart of the town, it faced considerable difficulty during the liberation war in 1971 and suffered some damage which it was thought would adversely affect further expansion. While continuing production at that location, it acquired land in the BSCIC Industrial Estate at Sopura, Rajshahi, in 1972. Construction of a building and production plant was undertaken in 1973, and production began in the new facility in 1974.

According to the Executive Director, the company ran smoothly and profitably from 1957 to 1981 by using the normal capacity of the plant.

In 1982, after the declaration of the Government drug policy, all the products produced earlier by the company were banned except Alhydrox. Until this time Adcco (BD) produced only in liquid form

and ran at 80-90 percent capacity. The company's production was seriously affected due to this drug policy. To overcome this problem, management decided to increase the number of items to be produced. The company began to manufacture a total of thirteen items packaged as nineteen products (see price list attached as appendix 1), of which seven items (twelve products) were in liquid form and six items (seven products) were in tablet form. In 1986, two capsule form products were added.

Only 20% of the total plant capacity is in use. As a result manpower and 80% of the plant capacity remain idle. For this reason the per unit fixed cost became higher, and the selling price of the product also increased. These twenty-one varieties of products are not sufficient to compete with the seventy-five to one hundred and twenty-five varieties of products produced by other companies.

In 1984, with the expectation of introducing new products, a major expansion project was undertaken. Because this required an additional loan from the bank, it was required that the accounting process acknowledge the old unit and the expansion project separately. Such distinction can be seen in the 1986 financial statements attached (see appendix 2).

Management has been reluctant to introduce new products, even though there appears to be no difficulty in obtaining permission from the government in introduce such products. Because the company has incurred losses each year since 1982, there is a problem with having the capital available to introduce a new product. The estimated amount of required working capital to produce a new product is Tk. 3 to 4 lacs. The sales manager also estimates that Tk. 40-50,000 would be required for marketing each new product. At the same time, he estimated that full recovery of this investment could be made in 12-15 months. Breakeven can occur if 7-10 new products are introduced.

Additionally, because of the consistent recent losses, Adcco has made no payments to the bank, either on principal or on interest, against its outstanding loans for the past three years. The company had borrowed nearly Tk. 1.5 crores from BSRS, ICB, and other commercial banks. (See full detail in the 1986 financial statement attached as appendix 2.) The bank is now exerting pressure on Adcco to repay the loans. In fact, in mid-1986, management seriously considered disposing of the company to the bank, but the bank was not interested. As a result, management is unable to raise additional working capital for the introduction of new products.

But the management of Adcco (BD) Ltd. strongly believes that, if it gets cooperation from the lending authorities and the Government of Bangladesh, it will be able to regain its normal position, operating near full capacity, earn profit as before, and repay its loans.

Questions for Discussion:

1. What has created the problems now facing Adcco (BD) Ltd.?

2. If you were reviewing Adcco's financial statements as a bank lending officer, what questions would you raise?

3. Would you sanction an additional loan for the introduction of a new product? Why or why not? If yes, how much would you sanction?

4. Suggest remedial measures to solve the problems of Adcco (BD) Ltd.?

Gram : ADCO

Phone No. { Factory : 3738 Office : 2710

ADCCO (Bangladesh) LIMITED

Manufacturer of Pharmaceutical Products.

BSCIC INDUSTRIAL ESTATE,

RAJSHAHI.

PRICE LIST FROM 1st July 1986

This Cancel all previous prices

(Inclusive of excise duty on M. R. P.)

BREAK UP OF PRICE.

Name of Medicines	Packing	Trade Price	Price excluding excise Duty	Excise Duty	M. R. P.
LIQUIDS					
1. Adcodyl – (Antihistaminic Syrup)	60 ml.	5·65	6·65	0·74	7·40
2. Adcodyl – (—Do—)	114 ml.	7·67	9·02	1·00	10·02
3. Adcopar – Elixir (Anthelmintic)	28 ml.	5·10	5·98	0·67	6·65
4. Adcopar – Elixir (—Do—)	114 ml.	16·15	19·00	2·12	21·12
5. Adcopar – Elixir (—Do—)	454 ml.	45·22	53·20	5·92	59·12
6. Alhydrox (Antacid Suspension)	220 ml.	17·77	20·90	2·32	23·22
7. Irosol (Blood fermirg Sy.)	114 ml.	10·50	12·35	1·37	13·72
8. Irosol (—Do—)	228 ml.	18·18	21·37	2·37	23·74
9. Irosol (—Do—)	454 ml.	32·30	38·00	4·22	42·22
10. Parapol(Analgesic&AntipyreticSyrup)	50ml.	5·25	6·18	0·68	6·86
11. Spirit Ammon AromateB,P,C Syrup	454ml.	38·76	45·60	5·07	50·67
12. Tincture Belladona B. P.	454 ml.	39·57	46·55	5·17	51·72
TABLETS					
1. Amazol 400 mg.	20 × 10 Tab	161·50	190·00	21·11	211·11
2. Alhydrox M. H.	25 × 10 Tab	60·57	71·25	7·92	79·17
3. C-Tab 250 mg.	25 × 10 Tab	84·80	99·75	11·09	110·84
4. Parapol – 500 mg.	25 × 10 Tab	55·98	64·80	7·20	72·00
5. Tranquil – 5 mg.	20 × 10 Tab	40·38	47·50	5·28	52·78
6. Tranquil – 2mg.	20 × 10 Tab	24·22	28·50	3·17	31·67
7. Cotamex (Cotrimoxazole)	10 × 10 Tab	80·32	94·50	10·50	105·00
CAPSULES					
1. Becofort (High potency B-Complex)	10 × 10 Cap.	53·55	63·00	7·00	70·00
2. Hemafol (Heamatinic cap with folic acid)	10 × 10 Cap.	38·25	45·00	5·00	50·00

Terms of Business

1. The trade discount 15% will be allowed on maximum retail price in all items in the list.
2. All prices are without engagement and subject to alterations from time to time.
3. Supplies are made subject to availability of stock.
4. PAYMENT; Cash against document or through Scheduled Bank and V. P. L. system.
5. DELIVERY ; Packing forwarding free in all cases, only 50% of the Rly. freight will be borne by the Customers on parcel booking and Rly. freight will be free on Goods booking on all orders not less than Tk. 1,000·00 net.
6. All goods are packed under expert supervision. so, we take no responsibility for any kind of loss or breakage and damage in transit, claims must be submitted to the carrier s Authority concern.
7. Rajshahi proper shall be the place of jurisdiction for settlement of dispute if any.

Sd/ A. Salam

Managing Director

Adcco (Bangladesh) Limited

Appendix 1

Price List

AUDIT REPORT

AND

STATEMENT OF ACCOUNTS OF

ADCCO (BANGLADESH) LIMITED,

R A J S H A H I.

FOR THE YEAR ENDED 31 DECEMBER, 1986.

BASU BANERJEE NATH & CO.

CHARTERED ACCOUNTANTS

DHAKA

Appendix 2

বসু ব্যানার্জী নাথ এ্যান্ড কোং
BASU BANERJEE NATH & CO.
Chartered Accountants

Phone : { Office : 25 10 20
Res : 31 62 34

ISPAHANI BUILDING (5th floor)
14-15, Motijheel Commercial Area,
Dhaka - 2

The Shareholders,
ADCCO(BANGLADESH) LIMITED,
BSIC Industrial Estate,
S O P U R A,
R A J S H A H I.

29 APR 1987

Ladies and Gentlemen,

We have audited the annexed Balance Sheet of ADCCO(BANGLADES LIMITED,RAJSHAHI as at 31 December,1986 and the Manufacturing Trading and Profit and Loss Account for the year ended on that date with books, vouchers and other relevant documents as maintainc and produced before us during the course of audit. Our examination was made in accordance with generally accepted auditing standard and accordingly included such test of the accounting records and such other auditing procedures as were considered necessary in the circumstances. We report as follows :-

a) We have obtained all the information and explanations we have required.

b) In our opinion, the Balance Sheet and the Manufacturing Trading and Profit and Loss Account have been drawn up in conformity with the law.

c) In our opinion, such Balance Sheet, subject to notes to accounts,exhibits a true and correct financial position of the Company to the best of our knowledge and belief as well as information and explanations given to us and as shown by the books of accounts of the Company.

d) The books of accounts were maintained as required by Section 130 of the Companies Act,1913.

BASU BANERJEE NATH & CO. DHAKA. Chartered Accountants

Yours faithfully,

(BASU BANERJEE NATH & CO.)
CHARTERED ACCOUNTANTS.

ADCCO (BANGLADESH) LIMITED
R A J S H A H I.

NOTES AND COMMENTS ON ACCOUNTS FOR
THE YEAR ENDED 31 DECEMBER, 1986.

01. B.S.R.S. LOAN : TK. 80,08,363.00
This amount is arrived at as follows :

Foreign Currency	40,58,363.00
Local Currency	39,50,000.00
TK.	80,08,363.00

An amount of Tk. 24,94,603.26 was charged by way of interest during this year and the balance is yet to be confirmed. Interest has been shown under current liabilities.

02. I. C. B. (BRIDGING LOAN) : TK. 8,00,000.00
This is the principal amount of loan, obtained from Investment Corporation of Bangladesh. Tk. 1,01,342.08 was charged on account of interest and was shown under the head current liabilities. The balance is subject to confirmation.

03. FIXED ASSETS : TK. 1,00,49,456.97
This figure represents the orginal cost of fixed assets less depreciation on the assets of old unit only. We note that depreciation was not charged in respect of fixed assets of new unit.

04. STOCK-IN-TRADE : TK. 63,52,524.15
Stock-in-trade was valued at average cost price and certified by the management.

05. CASH AND BANK BALANCES : TK. 50,870.74
Cash at bank has been checked by us with bank statement and found in order.

BASU BANERJEE NATH & CO. DHAKA. Chartered Accountants

BASU BANERJEE NATH & CO.)
CHARTERED ACCOUNTANTS.

বসু ব্যানার্জী এণ্ড কোং
চার্টার্ড একাউন্টেন্টস

ADCCO (BANGLADESH) LIMITED
SOPURA, RAJSHAHI.
BALANCE SHEET AS AT 31 DECEMBER, 1986.

CAPITAL AND LIABILITIES	OLD UNIT	EXPANSION PROJECT	T O T A L
AUTHORISED CAPITAL :			
99,760 Ordinary 'A' class shares of Tk. 100.00 each	99,76,000.00		
4,800 Ordinary 'B' class shares of Tk.5.00 each	24,000.00		
	1,00,00,000.00		1,00,00,000.00
ISSUED, SUBSCRIBED, CALLED AND PAID UP CAPITAL :			
19,760 ordinary 'A' Class shares of Tk.100.00 each	19,76,000.00		
Less : Calls in Arrear	16,180.00		
	19,59,820.00		
2,400 ordinary 'B' Class shares of Tk.500 each	12,000.00		
	19,71,820.00		19,71,820.00
DEPOSIT FOR SHARES :	3,80,340.00	29,34,465.46	33,14,805.46
INTERPROJECT ACCOUNT :			
Due to old unit		11,60,974.55	11,60,974.55
L O A N (SECURED) :			
As per schedule : L-1.		1,43,67,285.26	1,43,67,285.26
CURRENT LIABILITIES AND PROVISIONS :			
As per schedule : L-2.		85,56,826.27	85,56,826.27
TOTAL .... Tk.	23,52,160.00	2,70,19,551.54	2,93,71,711.54

DATED : 29.[illegible]1987

Ispahani Building (5th Floor),
14-15 Motijheel C/A, Dhaka-1000.

PROPERTY AND ASSETS	OLD UNIT	EXPANSION PROJECT	T O T A L
FIXED ASSETS :			
(At cost less depreciation)			
As per schedule : A-1.	5,21,092.14	95,28,364.83	1,00,49,456.97
INTERPROJECT ACCOUNT :			
Due from Expansion Project	11,60,974.55		11,60,974.55
CURRENT ASSETS :			
STOCK-IN-TRADE		63,52,524.15	63,52,524.15
DOCK DUES :	47,007.00	13,04,174.95	13,51,181.95
ADVANCE, DEPOSITS & PREPAYMENTS			
As per schedule : A-2.		4,22,557.00	4,22,557.00
CASH AND BANK BALANCES :			
As per schedule :A-3.		50,870.74	50,870.74
	47,007.00	81,30,126.84	81,77,133.84
PROFIT AND LOSS APPROPRIATION ACCOUNT :	6,23,086.31	93,61,059.87	99,84,146.18
TOTAL .. Tk.	23,52,160.00	2,70,19,551.54	2,93,71,711.54

Signed subject to our report of even date.

DHA

(BASU BANERJEE & CO.)
CHARTERED ACCOUNTANTS.

BEST COPY AVAILABLE

বসু ব্যানার্জী নাথ এ্যান্ড কোং

ADCOO (BANGLADESH) LIMITED, SOPURA, RAJSHAHI.
(EXPANSION PROJECT)

MANUFACTURING AND TRADING ACCOUNT FOR THE YEAR ENDED 31 DECEMBER, 1986.

Opening Work-in-Process		35,500.00		
MATERIAL CONSUMED :				
Opening stock	36,82,513.44		Work-in-Process	7,711.20
Add : Purchase	28,27,643.33			
	65,10,156.77			
Less : Closing stock	43,32,243.49	21,77,913.28	Cost of Production c/d.	37,67,427.66
Wages		2,39,754.43		
House rent		91,841.00		
Fringe Benefit		1,80,111.00		
Feeding charges		41,738.00		
Custom Duty		2,25,439.69		
Sales tax		8,127.00		
Excise duty		3,62,715.90		
Insurance premium		30,736.88		
Surcharge		34,830.17		
Clearing charges		87,735.38		
Cooli, cartage and Freight(Inward)		1,21,812.50		
Lab. contingency		9,436.25		
Licence fee		47,473.75		
Fuel		38,717.31		
Electricity		21,820.32		
TOTAL .... TK.		37,75,138.86	TOTAL ..... TK.	37,75,138.86
Opening stock of finished goods		6,46,725.00	Sales	42,02,526.67
Cost of Production b/d.		37,67,427.66	Closing stock of finished goods	20,12,569.46
Gross Profit transferred to Profit & Loss Account		18,00,983.47		
TOTAL .... TK.		62,15,096.13	TOTAL ..... TK.	62,15,096.13

(OLD UNIT)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER, 1986.

Depreciation	73,107.68	Net Loss transferred to Profit and Loss appropriation Account	73,107.68
TOTAL .... TK.	73,107.68	TOTAL ..... TK.	73,107.68

Signed subject to our report of even date.

DATED : 28th..1987

14-15 Motijheel C/A, Dhaka-1000.

(BASU BANERJEE NATH & CO.)
CHARTERED ACCOUNTANTS.

27

29

30

ADCCO (BANGLADESH) LIMITED

SCHEDULE OF FIXED ASSETS AS ON 31 DECEMBER, 1986.

SCHEDULE : A-1.

PARTICULARS	W.D. VALUE AS ON 01.01.86	ADDITION DURING THE YEAR	TOTAL VALUE AS ON 31.12.86	RATE OF DEP.	DEPRECIATION FOR THE YEAR	WRITTEN DOWN VALUE AS ON 31.12.86.
OLD UNIT :						
Land	67,882.40		67,882.40			67,882.40
Building	3,46,997.41		3,46,997.41	15%	52,049.	2,94,947.80
Plant and machinery	32,113.51		32,113.51	15%	4,817.03	27,296.48
Furniture and Fixture	42,879.73		42,879.73	10%	4,287.97	38,591.76
Ceiling Fan	2,934.09		2,934.09	10%	293.41	2,640.68
Lab. Equipment	50,415.99		50,415.99	10%	5,041.60	45,374.39
Tube-well	417.38		417.38	15%	62.61	354.77
Block and Design	5,530.66		5,530.66	10%	553.07	4,977.59
Bi-cycle	681.55		681.55	20%	136.31	545.24
Books	2,565.79		2,565.79	10%	256.58	2,309.21
Type Writer	1,692.24		1,692.24	15%	253.84	1,438.40
Calculator	294.94		294.94	15%	44.24	250.70
Van	7,930.62		7,930.62	15% 20%	1,586.12	6,344.50
Boundary wall	21,084.77		21,084.77	10%	2,108.48	18,976.29
Water Line Installation	10,778.74		10,778.74	15%	1,616.81	9,161.93
TK.	5,94,199.82	--	5,94,199.82		73,107.68	5,21,092.14
EXPANSION PROJECT :						
Building under construction	20,16,349.00		20,16,349.00			20,16,349.00
Machinery (Imported)	62,85,528.17	74,614.50	63,60,142.67			63,60,142.67
Machinery (Local)	5,72,217.00		5,72,217.00			5,72,217.00
Furniture	1,34,996.75		1,34,996.75			1,34,996.75
Ceiling Fan	14,310.00	4,365.00	18,675.00			18,675.00
Books	4,897.75	190.00	5,087.75			5,087.75
Van	2,75,740.16		2,75,740.16			2,75,740.16
Car	1,29,850.00		1,29,850.00			1,29,850.00
Block and Design	9,750.00		9,750.00			9,750.00
Calculator	3,180.00		3,180.00			3,180.00
By-cycle	2,376.50		2,376.50			2,376.50
TK.	94,49,195.33	79,169.50	95,28,364.83		73,107.68	95,28,364.83
Old Unit+Expansion Project	100,43,395.15	79,169.50	101,22,364.65			1,00,49,456.97
		Manufacturing Account			61,908.24	
		Profit and Loss Account			11,199.44	
			Total ...	Tk.	73,107.68	

BASU MAJUMDER PAUL & CO. DHAKA Chartered Accountants

বসু ব্যানার্জী নাথ এন্ড কোং

ADCCO (BANGLADESH) LIMITED

SCHEDULE OF ADVANCE, DEPOSIT & PREPAYMENTS AS ON 31.12.86. SCH.: A-2.

ADVANCE (As per schedule)		86,857.25
DEPOSITS :		
L. C. Margin with Janata Bank	1,16,874.00	
L. C. Margin with Agrani Bank	1,36,600.00	
L. C. Margin with B.S.R.S.	10,000.00	
Suspense	72,225.75	3,35,699.75
	TK.	4,22,557.00

SCHEDULE OF CASH AND BANK BALANCES AS ON 31 DECEMBER, 1986. SCHEDULE : A-3.

Cash in hand		21,565.08
Cash at Bank :		
Janata Bank C.D. A/c No. 4228	204.65	
Agrani Bank C.D. A/c No. 2906	13,531.45	
Sonali Bank, A/c No. A/5/13	15,421.13	
Janata Bank, STD-31	148.43	29,305.66
	TK.	50,870.74

SCHEDULE OF LOAN AS ON 31 DECEMBER, 1986. SCHEDULE : L-1.

B. S. R. S.		
F. C. Loan	40,58,363.00	
L. C. Loan	39,50,000.00	80,08,363.00
		8,00,000.00
I. C. B.		
Agrani Bank c.c. (Pledge)	29,75,832.50	
Agrani Bank c.c. (Hypo.)	13,39,579.29	
Agrani Bank,LIM	8,03,557.30	
Janata Bank, LIM	4,19,752.17	
Agrani Bank (Demand loan)	20,201.00	55,58,922.26
	TK.	1,43,67,285.26

BASU BANERJEE NATH & CO. DHAKA Chartered Accountants

Contd....P/2.

SCHEDULE OF CURRENT LIABILITIES AND PROVISIONS AS ON 31.12.86. SCHEDULE : L-2.

M/s. Basu Banerjee Nath & Co.	2,500.00
M/s. Cipla Limited	7,347.00
M/s. Jewal & Co.	34,635.30
M/s. Hossain Trading	14,650.00
M/s. Luna Automobile	1,09,059.46
M/s. Standard Manufacturing Company	27,597.00
M/s. Kamal Press Limited	25,698.00
M/s. Ideal Corporation	365.00
M/s. Farm Packaging Industries	2,000.00
Mr. Moshiur Rahman	5,140.92
Mr. Abdus Salam	1,28,000.00
BSCIC Value land	15,556.35
Provision for I. C. B. Interest	4,15,258.00
Provision for B.S.R.S. Interest	77,02,166.24
Provision for Income Tax	66,853.00
	TK. 85,56,826.27

SCHEDULE OF ADVANCE AS ON 31.12.86.

Mr. Ataur Rahman	433.00
Mr. Aziaul Haque (M.R.)	950.00
Mr. Ansarul Islam (D.M.)	463.00
Mr. Abdul Kader Talukder	612.00
Mr. Abul Kalam Azad	100.00
Mr. Anwarul Islam (M.R.)	1,622.00
Mr. Arun Kumar Das	100.00
Mr. Abul Kashem	100.00
Mr. Anup Kumar Das	180.00
Mr. Abdul Latif (Driver)	260.00
Mr. Abul Kashem (Boiler)	50.00
Mr. A.S. Noor Mohammad)	5,450.00
Mr. Abu Zafor (M.R.)	800.00
Mr. Badiuzzaman (G.M.)	3,750.00
Mr. Binoy Mr. Das	100.00
Mr. Bhagobat Chandra Saha	100,00
Mr. Goutam Kr. Das	100.00
Mr. Goutom Kr. Basak(M.R.)	800.00
Mr. Hamid Sk.	300.00
Mr. K. A. Kashem (M.R.)	800.00
Mr. Khaleduzzaman (M.R.)	800.00
Mr. Kazi Zober Ahmed	1,000.00

Contd..P/3.

Mr. Narzzem Ali	100.00
Mr. Mahbubur Rahman	100.00
Mr. Nosharraf Hossain(S.R.)	800.00
Mr. Nazrul Islam	700.00
Mr. Netai Zamader	100.00
Mr. Nashim Ali	387.00
Mr. Nazmul Haque	800,00
Mr. Nurul Islam	800.00
Mr. Khaluddin Mollah	800.00
Mr. Rofiqul Islam	852.00
Mr. Rezaul Karim	600,00
Mr. Romizul Haque	800.00
Mr. Rezaul Islam	800.00
Mr. Santosh Kumar	1,200.00
Mr. Selim Sk.	100.00
Mr. Samiul Islam	100.00
Mr. Saner Ali	100.00
Mr. Samad Ali	100.00
Mr. Sazahan Ali	100.00
Mrs. Sawkatara	100.00
Mr. Sultan Ahmed	1,500.00
Mr. Sujit Kr. Deb.	800.00
Mr. Sirajul Islam	131.50
Mr. Sazzad Hossain	100.00
Mr. Tofiqul Islam	800.00
Mr. Taposh Kumar Bhattacherjee	800.00
Mr. Tariqul Islam	800.00
Mr. Zainul Abedin	764.00
M/s. Liver Brothers	37,904.00
M/s. Rajshahi Sugar Mill	237.75
Surcharge (Drum)	9,100.00
M/s. Bengal Glass Works	1,075.00
M/s. Crew & Co.	95.00
Mr. Mosharraf Hossain	4,300.00
Mr. Sujit Kr. Deb.	840.00
TK.	86,857.25

BASU BANERJEE NATH & CO. DHAKA. Chartered Accountants

--- : : : ---

Quality Textiles

M. Muzahidul Islam
Assistant Professor and Chairman
Department of Finance & Banking, Rajshahi University
and
Afrauz Zaman Khan Choudhury
Lecturer
Department of Finance & Banking, Rajshahi University

Quality Textiles, located at BSCIC Industrial State, Sapura, Rajshahi, was established in 1976. The Managing Director of Quality Textiles is an educated Industrialist with long experience in different branches of business and industry. He started his career with a stationery business and had a contract business for a long time. Side by side with this, he was a dealer for Trading Corporation of Bangladesh and Jamuna Oil and also a wholesaler for Rajshahi Sugar Mills until 1976 when he started Quality Textiles as a silk industry. He also runs a petrol pump successfully and profitably.

Initially the proprietor purchased the business with his own cash amounting to Tk. 4,75,000, which was extended after receiving a loan from Bangladesh Shilpa Bank amounting to Tk. 5,35,000. The local currency component of the loan was Tk. 2,00,000 and the foreign currency component of the loan was Tk. 3,35,000. The proprietor did not face any serious problems or complications in the process of procuring the loan. He conducted his own feasibility study, which he now concedes was faulty, and no one at the bank had the expertise to evaluate the study. He was allotted a nice inexpensive plot in the BSCIC, which also takes care of the all-weather usable road, security, electricity, and water supply facilities. There are a number of similar small textile units in the same area.

The stimulating factors supporting the establishment of a textile industry as stated by the proprietor were to: a) create employment, b) enjoy social status and prestige, c) have the opportunity to go abroad, d) provide extra pleasure, and e) above all to contribute something to the country. The Managing Director expressed his pleasure and pride in presenting his wife with the first silk sari from his own industry.

The factory consists of 16 looms, of which 12 looms are imported from Japan, and the remaining four are made with indigenous technology. The production capacity as per the Director's statement is 1,000 yds. per loom per month or 16,000 yards per month. The total number of employees was originally sixty, of which 10 were management and the other 50 included mechanics, foremen, supervisors, guards, etc. Most of the employees are uneducated. There are four experienced technicians having no degree or diploma in mechanical engineering.

The business went into production in 1977. It was operating as a silk textile factory until 1982 when it turned to synthetic combinations. The facts behind the abandonment of the idea of producing silk, as explained, is that silk is not commercially viable, because the price of silk is much higher than the price of the substitutes. On the other hand, per capita income is very low, and most of the people are below subsistence level. So, the demand for silk is very limited, with buyers usually purchasing silk occasionally, preferably on festivals. This results in a working capital problem for the company. So far as the export of silk is concerned, the scope is very limited because of the competition from some neighbouring countries like India, Thailand, etc. For example, the quality of Rajshahi silk is much better than that of India, but the price of the Indian silk is attractive because they are able to lower the cost through high production and many other reasons.

An attempt was made by the proprietor of Quality Textiles to establish a silk garment industry with a market in the United States on the basis of assurances given by an American importer. While Bangladesh silk fabric is more expensive than that of its neighbours, because of cheaper labour in Bangladesh, silk garments can be exported more cheaply than from other countries. Rajshahi is also a good location for a silk garment factory because it is a major silk producer. But the Bangladesh authorities concerned do not approve of the garments project for some unidentified reasons. So the industry turned to synthetic cloth in 1982.

The new venture worked well from 1982-84, i.e., the concern ran profitably, because at that time the number of textile mills at Rajshahi was limited. But gradually the industry began to incur losses. In the previous years the industry has incurred a loss amounting to Tk. 7,00,000 (seven lacs). The causes behind this undesirable failure as stated by the Managing Director may be summarised as follows:

a) The number of competitors has increased quite substantially (from 3 to 10), but the demand for the product has not increased at the same rate.

b) There is not a finishing industry in Rajshahi so the producers at Rajshahi are bound to sell their products below cost price to Dhaka-based finishing wholesalers who tend to be monopolistic in nature.

c) The carrying cost of the raw material (synthetic yarn) from Dhaka to the Rajshahi mill is about Tk. 56 per 24 Kg. carton, which adds considerably to the cost of production.

d) The carrying cost from the factory in Rajshahi to the finishing factory in Dhaka for the finished product (gray cloth) is additional cost incurred by the producers at Rajshahi (amounting to about Tk. 240 per 2,500 yds.

e) The huge unofficial supply (smuggling) of the same product or its substitutes from the neighbouring country of India has caused the demand for the Rajshahi product to fall. At the same time, finished goods cannot flow freely back to Rajshahi from Dhaka because the authorities fear that the products will be smuggled into India.

f) Political uncertainties of the country and unusual hartals, etc., are also the cause to some extent of such losses, because the Industry must pay its workers for the period under hartal which increases the cost of the product with abnormal idle time.

g) Labour problems in another acute and chronic problem. Skilled labour is very short. The labourers, when appointed permanently after three months, began to demand more than their eligibility, and more than the capacity of the concern. To quote the M.D., "They want more and more without contributing anything." The M.D. was gharoed three times in his office until midnight and once in his house.

Under the circumstances the owner is going to close up the company within the next month. To justify the layoff, the M.D. said that they are trying to escape from working losses. Whether the operation is continued or stopped, the financial loss will remain, but by closing down the factory, the management will be able to stop operating losses. The operating loss may be shown as follows:

	Loan cloth	Died cloth
Cost per yard	Tk. 16.00	Tk. 13.00
Price per yard	Tk. 13.00	Tk. 10.00

Recently the management made a proposal to the Bank that they sanction another 10,00,000/-loan to reshape the business to produce jorrzet products. This loan would purchase machinery as follows: 6 twisting machines of 200 spindles (added to the current one), doubling machine with 400 spindles, and heat set with boiler. In that case the management is expecting a profit of Tk. 18,00,000/- per year, calculated as follows:

16 looms at 1,000 yards per month = 16,000 yds.
Selling price = Tk. 30; Cost = Tk. 20; Profit = Tk. 10 per yd.
Monthly profit = 1600 x 10 = Tk. 1,60,000; Yearly profit = 1,60,000 x 12 = Tk. 18,00,000

So after one year they will be in a position to repay Tk. 10,00,000/- (the new loan) and also to repay the previous loan by instalment.

The business has already paid Tk. 3,30,000/- out of Tk. 5,35,000/- (the original loan). But at present they are overdue Tk. 18,00,000/- partially because of the interest and punitive interest (original interest of 15% has now increased to 20%), and partially because of dollar fluctuations. When the loan was taken out by the company, the F.C. exchange rate was $1 = Tk. 11.00.

But now this rate has grown to $1 = Tk. 33.00.

The BSB is pressing the company to repay the loan, and they have launched a suit in this connection.

Questions for discussion:

1. What are the reasons for Quality Textiles closing down?
2. Should the bank sanction the loan of Tk.10,00,000/-?
3. What recommendations would you make to the managing director?
4. What actions should be taken by the bank?

Karim-Hannan Garments Ltd.

A.F.M Ashraf Ali
Associate Professor, Department of Management
University of Chittagong
Chittagong, Bangladesh

1. Promoters

Major (retired) Abdul Hannan, the son of the late Abdur Rahman, was born on March 31, 1946, in Noakhali, Bangladesh. From his boyhood he was a good football player, having a pleasing and convincing personality. He was enthusiastic and led many matches as captain of his team. He was placed in the first division in both the Matriculation and the Intermediate examinations in the years 1962 and 1964, respectively. He was admitted into B. Sc. (Hons.) in the Department of Chemistry, University of Dhaka, in 1964 and was a resident student of S.M. Hall. Once he found an advertisement on the Notice Board of the Hall regarding an opportunity of becoming a commissioned officer in the Pakistan Armed Forces. He then applied for and faced different tests successfully and was commissioned in the then Armed Forces in 1966.

He was promoted to the rank of Major in 1974. He believed in freedom in all respects and could not cope with the military rule very well. He voluntarily retired from the then Armed Forces in 1981 after the assassination of the late President of Bangladesh (voluntary retirement was allowed by the then Government of Bangladesh in that year). From that time he thought of starting a business.

Mr. Abdul Karim, son of the late Mosharraf Hossain, was born on the February 21, 1945, also in the District of Noakhali. He was one of the senior playmates of Major Hannan during their school and college lives. He helped Major Hannan in preparing his lessons, making decisions and the like.

He was also placed in the first division in both the Matriculation and the Intermediate Examinations in the years 1960 and 1962, respectively. Then he procured his B. Sc. Engineering Degree (Mechanical) in 1967 from the Bangladesh University of Engineering and Technology, Dhaka. He was amiable in nature, ambitious in character and helped many of his friends in various ways. He served as General Manager in a private organization for some time before joining Progoti Industries Ltd. (an automobile industry in Bangladesh) as a Production Manager. He served there for about ten years in that capacity and, in the meantime, received training in production engineering in the U.K. and Switzerland.

2. Origin

On one occasion, Mr. Karim experienced some differences of

opinion with the top management levels of Progoti Industries Ltd. which he thought to be very crucial. When he was thinking of switching to some other job, Major Hannan came to him for discussion about his (Hannan's) future plan of action. Major Hannan said to Mr. Karim, "Karim Bhai (brother Karim), I want to start a business. Would you kindly cooperate with me and participate in it?" He then considered the proposal of Major Hannan seriously for two days. On the third day he saw Major Hannan and said, "Dear Hannan, I have thought over your proposal and have finally decided to give up my present job. I will participate in the business with you. But what business should we start?" Major Hannan replied, "O.K. let's explore the possibilities of starting a lucrative business. But we have come to a final decision that we are going to start a business very soon."

Then they considered the possibility of starting a business of spare parts for cycles, motor cars, and other vehicles. They were also considering the probability of trading in old clothes to be imported from the U.S.A., Canada, the U.K., and Australia. On November 1, 1981, Major Hannan came in contact with a Korean businessman in Hotel Agrabad in Chittagong who was running a garment factory in Korea. From there he was convinced that he should start a garment factory. He discussed the matter with Mr. Karim. Finally, they decided to start a garment factory to earn a profit and acquire scarce (for Bangladesh) foreign exchange by producing and exporting quality garments to advanced countries. They came to this decision because they found assured foreign markets, one hundred percent export-oriented business, minimum local troubles, an easy technique of production, a cheap supply of labourers, and availability of a bank loan from the Bangladesh Shilpa Rin Sangstha (industrial bank of Bangladesh). They thought it would be a lucrative business and eventually it proved to be so.

3. Production

By forming a private limited company under the name Karim-Hannan Garments Ltd., they went into production in February, 1982. Initially, they had 2,000 units of productive capacity per day, but they could not achieve that target. After a few months, they added considerable machinery, increasing their installed capacity to 9,000 units per day, and they were able to utilize 110% to 120% of their installed capacity up to 1984. They could achieve that success by introducing various incentives to the workers, such as:

a) Attendance bonus,
b) Production bonus,
c) Annual bonus, and
d) Annual presentation for excellent performance.

If any employees' (of class III and class IV) attendance was regular (26 days per month) in the first month, she/he would get Taka 20.00 as an attendance bonus. If her/his attendance was regular in the subsequent month, she/he would get Taka 40.00 and that would increase to Taka 60.00 from the following month. Another kind of

bonus called a production bonus was paid to the workers at the rate of 20% of their basic pay for achieving the target output. Over and above this, the management paid an annual bonus to every worker provided she/he had served the organization for not less than one year. Finally, they paid an annual presentation to some of the employees for their excellent performance throughout the whole year in the form of radios, cycles, wrist watches, etc. They believed that it was through this bonus plan that they could achieve production targets of more than the installed capacity of their plant and machinery. All of these incentive-giving plans were initiated by Mr. Karim.

Karim-Hannan Garments Ltd. needed sewing machines, cutting machines, calenders, etc., for running its operations. These machines were being imported from Hong Kong, Korea, and Japan. In procuring orders and supplying finished products, both of the promoters made joint decisions. But Mr. Karim expected that his decision should prevail over Major Hannan's. On the other hand, Major Hannan was used to exercising supremacy over others by imposing his decisions.

4. Marketing

Karim-Hannan Garments Ltd. exports apparel to: a) The U.S.A., (80%) b) Canada, c) The U.K., d) West Germany, and e) Holland.

The American buyers were being contacted by both of the promoters jointly, while the U.K.'s and Holland's markets were being harnessed by Mr. Karim through his personal influence. On the other hand, the Canadian market was being exploited by using the influence of Major Hannan.

In the case of setting selling prices, mutual bargaining of the concerned parties was the main basis. However, here also Major Hannan was used to playing a predominant role over Mr. Karim.

5. Personnel

Personnel management plays a pivotal role in increasing the productivity of any undertaking. The organization chart of the business is as follows:

The organization chart shows that authority passes from the higher to the lower strata. It is interesting to note that there were two Managing Directors (meaning that both the promoters were there) in the organization. The position of the Personnel Manager was just below the Factory Manager. The Factory Manager, the Personnel Manager and the Commercial Manager were Major Hannan's friends.

Recruitment of the managerial people and the workers was done by advertisement, by honouring the request of friends and relatives and by using the preference of the promoters.

Mr. Karim played a major role in the case of appointments, promotions, suspensions, and dismissals of the executives and the employees through the Factory Manager and the Personnel Manager for which Major Hannan was not very happy with him.

6. Others

Karim-Hannan Garments Ltd. was 100% export-oriented. Its development was entirely dependent on the international market. The starting point of entering an international market was the keeping of a congenial and friendly relations with foreign buyers. Finished products must be exported in time so that there is no breech of contract regarding goods having time to reach the buyers. But there are complex formalities in the export trade of Bangladesh. Similarly, there is customs harassment with regard to the import of capital equipment and raw materials for industries. In all respects, Major Hannan was in a better position than Mr. Karim to make the right decisions. As he was a retired army officer, he could influence the government machinery in an easier way than Mr. Karim, for martial law administrators were known to Major Hannan.

In the case of payment of honoraria to the Managing Directors and establishing authority for making decisions, there arose a difference of opinion between the two promoters. In a Board meeting in 1984, Major Hannan said to Mr. Karim, "I want more honorarium and more decision making authority than you, because I am the pioneer of the company and have to move hither and thither for getting permission from different authorities. In this meeting a resolution to this effect should be taken." Mr. Karim sharply reacted and said, "I am taking every possible care of running the administration, of harnessing foreign markets and what not. Rather, I should be given more honorarium and authority than you." Major Hannan replied, "Karim Bhai, you were just rotting in Progoti Industries Ltd., and I have opened this business opportunity for you. Should you not be thankful to me for that?" Mr. Karim angrily replied, "But for that matter you are not the all in all of this company. In fact, my contributions the prosperity of the company are more than those of yours. Look Hannan, your very attitude is objectionable. I am your senior in all regards, then why should you neglect me? I am really disgusted with your overall behaviour." Major Hannan said, "No, Karim Bhai, if you count everything, you shall find my contributions to be much more greater than yours. Rather you are going too far."

Questions for Discussion

1. Evaluate the business characteristics of both promoters.

2. What were the major areas of difference of opinion between the promoters?

3. What recommendations would you make to both Managing Directors? Why?

Automobile Assembly/Manufacturing Enterprises In the Private Sector

Amal B. Nag
Professor, Department of Accounting
Kanchan Kumar Purohit, Lecturer
University of Chittagong

On December 2, 1987, an Inter-Ministerial Meeting was held at the Ministry of Industries with representatives from the Ministry of Commerce, Ministry of Industries, Ministry of Finance, Ministry of Planning, Ministry of Roads, Highways and Road Transport and the Bangladesh Steel and Engineering Corporation to reconsider the issue of granting permission to set up automobile assembly/manufacturing plants in the private sector. The main objective of the New Industrial Policy (NIP) announced in 1986 was to expand the role of the private sector and limit the role of the public sector to basic, heavy and strategic industries. Accordingly seven categories of industries were identified as "basic, heavy and strategic" and were placed in the "restricted list." All other industries including the automobile assembly/manufacturing plants were placed in the "free list."

On the basis of the NIP of 1986 eight entrepreneurs applied to the Director-General (D-G) of Industries for permission to set up automobile assembly plants in the private sector. The Bangladesh Steel and Engineering Corporation (BSEC) requested the D-G of Industries not to grant such permission on the ground that the Progati Industries Ltd.--the lone automobile assembly factory in the public sector had been suffering from excess capacity for a number of years. The other automobile assembly plant (which was in the private sector) was also suffering from the same difficulty. Realizing the seriousness of the problem, the Government in 1987 put the automobile assembly/manufacturing industry in the "restricted list." But in the meantime the D-G of Industries granted permission to two applicants of the eight (viz., Messrs. Nippon Motors and Messrs. Uttara Motors) to set up automobile assembly plants on the clear understanding that they would go for progressive manufacturing of automobiles in Bangladesh. There was a rumor that some more applicants would be given permission to set up automobile assembly plants. Such a policy in the opinion of the management of Progati would affect the very existence of Progati. The management of Progati, therefore, wrote to the Ministry of Industries requesting them to reconsider the decision of granting permission to set up automobile assembly plants in the private sector.

Progati Industries Ltd. was registered in 1972 under the Companies Act, 1913, to take over the assets and liabilities of the then Gandhara Industries Ltd. which was set up in 1966 and was almost destroyed during the Liberation War of 1971. Progati was nationalized in 1974 and has been operating as a Unit of BSEC since then.

Progati was the only automobile assembly plant in Bangladesh until 1982. The factory was set up at Sitakunda about 23 miles from Chittagong and was planned to assemble as well as manufacture various types of vehicles, such as cars, buses, trucks, jeeps, minibuses, pick-up vans, etc. It has, however, been operating as an assembly plant only until now, although it has been producing bus bodys, van bodys, water tankers, etc., since 1978. In 1982 another enterprise in the private sector, viz., Aftab Industries Ltd., was permitted to set up an automobile assembly/manufacturing plant in Bangladesh. This factory was located at Fauzdarhat about 7 miles from Chittagong.

The annual capacity of these two plants as of September 30, 1987, was as follows:

Progati Industries Ltd.	2000 vehicles per shift.
Aftab Industries Ltd.	1500 vehicles per shift.

These two plants can, therefore, assemble annually 3500 automobiles working one shift (8 hours) a day and 7000 automobiles working two shifts (16 hours) a day. There are no accurate estimates of demands for various categories of automobiles in Bangladesh. The available estimates vary between 4000 and 7000 vehicles per annum. It appears that effective annual demand for vehicles would not exceed 6000. It is, however, clear that the entire domestic demand for automobiles can be met by the existing two factories.

It was argued on behalf of Progati and BSEC that the policy of granting permission to set up automobile assembly plants in the private sector was unwise and unfair. In the financial year 1980-81, the then Government, assuming that there was a great scarcity of various types of vehicles for movement of goods and passengers, directed Progati to assemble 5,000 vehicles, and, accordingly, Progati imported 2500 vehicles in CKD (completely knocked down) condition. But these vehicles remained in stock for 2 to 3 years for lack of demand. As of September 30, 1987, Progati had 350 vehicles in completely finished condition and another 350 in the pipe line.

It was sometimes alleged that the prices of a vehicle assembled at Progati were higher than the prices of similar vehicles imported from abroad. The management of Progati asserted that the allegation was not based on proper assessment facts.

In 1987 some commercial banks extended loans to the importers @ Tk. 450.000 per truck for the purpose of importing trucks from a foreign country. the price of the same truck assembled at Progati had been fixed at Tk. 460.000. But Progati has to pay excise duty @ Tk. 46,000 per truck which the importer in the completely finished condition does not have to pay. Another reason for the excessive cost of locally assembled automobiles is the underutilization of capacity as a result of which the fixed overhead is distributed over a small number of vehicles. Both Progati and Aftab have been utilizing only about 25 percent of their capacity for the last two years. The management of Progati thought that the only way to reduce the price of the locally assembled automobiles was to allow

Aftab and Progati to utilize their capacity as fully as possible. For this purpose it would be necessary, as suggested by the same circle, to ban or restrict the import of vehicles in completely finished condition and also refuse permission to set up any automobile assembly plants in the private sector until there was a substantial increase in the domestic demand for automobiles.

It was also alleged that the two enterprises permitted by the D-G of Industries to set up automobile assembly plants were supposed to be progressive manufacturers of automobiles in Bangladesh. But none of them showed any interest in that direction for the simple reason that setting up an automobile manufacturing facility is capital intensive. One of these two enterprises immediately after getting permission from the D-G of Industries obtained a cash licence from the Chief Controller of Imports and Exports to import vehicles in CKD Condition to the extent of 50 percent of its installed capacity. It was improper, it is alleged, to give such a facility to an enterprise before setting up the assembly plant.

The representation of the Ministry of Roads, Highways and Road Transport, on the other hand, pleaded that there was a scarcity of various types of vehicles, particularly buses, trucks and minibuses and in order to facilitate easy movement of goods and passengers, it was necessary to increase substantially the number of these vehicles on road. The only way to do so was to allow import of these vehicles on easy terms and permit local entrepreneurs to set up automobile assembly/manufacturing plants in Bangladesh.

Questions for discussion:

1. Evaluate the position taken by the government. Was it a good decision? Why or why not?

2. Evaluate the arguments put forward by Progati to restrict licences. Do you agree or disagree? Why? What other arguments might have strengthened their position?

3. Evaluate the arguments put forward by those opposed to the existing restrictions. Do you agree or disagree? Why? What other arguments might have strengthened their position?

General Electric Manufacturing Co. Ltd.

Abdul Mannan, Associate Professor
Department of Management
Milan Kumar Bhattacharjee, Lecturer
Department of Accounting
University of Chittagong

Introduction: The Managing Director of the General Electric Manufacturing Co. Ltd. (GEM), while narrating the performance of his plant to these authors, remarked, "If we cannot do something about marketing our products, maybe we will have to close down this plant within the next ten years." He was visibly worried and had reason to be. The plant was running at 17% capacity, and there was no sign of any significant improvement. As of March 31, 1988, the company had an accumulated loss of Tk. 7 crores 10.50 lakhs.

The GEM plant was conceived some time in 1964 to cater to the need for electro-technical equipment for development of the power sector throughout Pakistan. Operating at full capacity the plant was planned to supply heavy duty electrical equipment to the whole of Pakistan while also exporting its products to other countries. But by the time work could be completed the war of liberation of Bangladesh had started.

After liberation, in pursuance of the USSR-Bangladesh Economic and Technical Co-operation Agreement of 1972, a contract with M/S Prommashexport of USSR was made in July, 1972, whereby USSR would collaborate in completing the plant. No major change in the original plan was made and the total cost estimated for the entire project was Tk. 87.38 crores, out of which Taka 36.67 crores in foreign exchange came from the USSR credit.

The plant and other related facilities were erected at North Patenga, Chittagong, on an area of 107 acres. In addition to many construction materials, a major portion of the machinery and equipment came from the USSR. A small amount of equipment came from West Germany, France and Japan, and even some came from Bangladesh Machine Tools Factory in Dhaka. The plant was formally inaugurated on September 26, 1978.

Production Programme: The GEM plant switched on its trial production with the following three products to be marketed mainly to the Power Development Board (PDB) for use in its electrical substations:

1. Lighting arrestor, 9kv
2. Disconnector, 11kv, 320 ampere
3. Distributing Transformers, 250VA, 11/0.4KV

The plant was equipped to produce seventy-eight different types of products weighing 10,000 tons per year. Once the take-off stage was over, the plant was supposed to provide a major portion of heavy

electrical equipment and machineries required by PDB and the Rural Electrification Board, thus reducing their dependence on import and saving a huge amount of foreign exchange.

With the capacity of diversified production, the GEM plant could also contribute significantly by providing machines and spares for Textile Mills and Jute Mills and heavy structural materials for transmission lines and substations of PDB and REB. While on full production level it could absorb about two thousand five hundred, semi-skilled, and skilled workers and other employees.

Marketing: PDB and REB are its principal customers. A very small number of its products are sold to private customers. However, purchases by PDB and REB from the GEM plant have been very insignificant. The reason for this sorry state of affairs is that most of the projects of the PDB and those of the REB are funded by aids and credits coming from the Western Capitalist countries, namely U.S., West Germany and other Western aid giving agencies like USAID. These funds are sometimes tied and conditions are such that they restrict PDB or REB from purchasing any significant volume of equipment from the GEM plant. It is only in those projects where the government uses funds from sources other than the ones mentioned above that PDB and REB can purchase from GEM. As a consequence to date only 17% of the installed capacity of the GEM plant is being utilized. But through intense lobbying and negotiations with the donor countries and agencies, things seem to be improving to some extent. Recently, the Government has decided that PDB and REB will have to buy 85% of their transformer requirements from the GEM plant. Under the new policy GEM received an order to supply six hundred transformers to PDB. But soon the order was cut down to 40% because of fund constraints. As of June 30, 1987, GEM was carrying an inventory of transformers worth Tk.22 crores.

Raw Materials: 86% of raw materials used by the plant are imported, and the average duty paid on these raw materials is 78%. On the other hand, if PDB imports a transformer, it has to pay only 7 1/2% duty. This uneven duty structure restricts the GEM plant from entering into price competition while competing for successful bids to supply equipment to PDB or REB.

Management: As a unit of Bangladesh Steel and Engineering Corporation, the plant is under the direct supervision of the Corporation. The organisation of the GEM plant is headed by the Managing Director. Recently, the plant has been transformed into a public limited company. In pursuance of this policy, a nine-member Board of Directors was formed. The unit-management looks after the everyday affairs of the unit, whereas the major policies including the setting up of production targets for the plant were decided by the Corporation. With the formation of the company, it is expected that all major policies will now be formulated by the Board of Directors.

Personnel Policy: GEM has provision for employment of 2500 workers in all categories. Because of underutilization of capacity

at present, only 881 employees are on the payroll. There is a training institute on the premises for training the workers. The training facility is also used at times by outside agencies or concerns. The worker receives an incentive bonus for achieving the target. The workers are unionized. An amount of Taka seven lakh and eighty three thousand is spent per month by the way of salary and wages and eleven lakhs spent for other benefits.

Questions for discussion:

1. Analyse the current status of the company, looking at as many facets as possible of GEM.

2. What recommendations would you make to the management team of GEM?